CurveGlobal Markets

Bilaterally Negotiated Trade Guidance

15 September 2020

Version 4.2

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1.0 Introduction

CurveGlobal Markets (or the “Exchange”) permits the trading of Bilaterally Negotiated Trades in certain of its Listed Products, as further detailed in this document. A Bilaterally Negotiated Trade is a privately negotiated transaction that is a Basis Trade, Exchange of Future for Swap, or a Block Trade.

The trading of Bilaterally Negotiated Trades is governed by Section 5 of the CurveGlobal Market Rules (“the Rules”) and this Bilaterally Negotiated Trade Guidance. Member Firms should be familiar with both documents. A breach of the Rules or any of the associated guidance set down in this document may result in disciplinary action.

2.0 Definitions

2.1 Trade types

“Bilaterally Negotiated Trade” means a Block Trade, Basis Trade or Exchange of Future for Swap transaction.

“Block Trade” means a privately negotiated transaction in one or more Futures and/or Options that is allowed to be executed away from the Order Book in a quantity that meets a minimum volume threshold.

“Basis Trade” means a privately negotiated transaction consisting of the simultaneous execution of an Interest Rate Derivative against an offsetting equivalent amount of a related underlying cash bond instrument in a quantity that meets a minimum volume threshold.

“Exchange of Future for Swap” means a privately negotiated transaction consisting of the simultaneous execution of an Exchange Futures Contract against an offsetting equivalent amount of a related swap not listed on the Exchange in a quantity that meets a minimum volume threshold.

3.0 Participation in Bilaterally Negotiated Trades

3.1 Participation

Member Firms may transact in Bilaterally Negotiated Trades subject to a Member Firm:

- Being correctly permissioned by the Exchange to trade the relevant Listed Products;
- Carrying all appropriate permissions, authorisations and regulatory licences, or holding relevant exemptions in appropriate cases, as required by applicable laws; and
- Ensuring that, when trading with or on behalf of a customer that is not a Member Firm, they follow all relevant regulations including those related to suitability and appropriateness.

4.0 Guidance on Basis Trades and Exchange of Future for Swap transactions

4.1 Eligible Products

A Basis Trade or Exchange of Future for Swap may be traded with the Exchange leg as a Future in Interest Rate Derivatives only and all Interest Rate Futures are eligible as the Exchange leg.

4.2 Price requirements

A Basis Trade or Exchange of Future for Swap transaction must be executed at a price that is reasonable in light of the commercial circumstances of the buyer and the seller.

The Exchange will implement price controls on Basis Trade and Exchange of Future for Swap transactions at **+/-20% from the best bid and offer ("BBO") in the Order Book.**

In cases where there is no BBO in the Order Book at the time the Basis Trade or Exchange of Future for Swap is reported, the Exchange may apply the relevant price control to the last observed BBO in the Order Book as a guide although discretion will be applied in appropriate cases.

Member Firms are reminded that Basis Trade or Exchange of Future for Swap transactions must be consistent with CurveGlobal Markets Rule 1.3.1 ("Market Conduct rules").

4.3 Minimum volume thresholds

Members may only transact a Basis Trade or Exchange of Future for Swap provided that the Futures leg meets the minimum size for negotiated transactions, specified in the CurveGlobal Markets BNT and DP Threshold Parameters document available here.

In all cases the quantity of the Related Position Leg must be broadly equivalent to the quantity represented by the Futures leg when considered in light of the overall economic exposure between the two legs.

In order for a Basis Trade or Exchange of Future for Swap to be considered for deferred publication, as further detailed in Section 7 below, the Futures leg of the Basis Trade or Exchange of Future for Swap must meet the minimum size for the deferred publication of negotiated transactions, as specified in the CurveGlobal Markets BNT and DP Threshold Parameters document.

4.4 Hedge Ratios

Appropriate hedge ratios must be used depending on the type and combination of legs of the Basis Trade or Exchange of Future for Swap transaction. By way of example, acceptable hedge ratio methods for Interest Rate Derivatives include a ratio of basis point values, a duration-based method, a combination of price factor and duration, or a Notional value ratio (currency adjusted if applicable).

4.5 Related Position Leg

The Futures leg and the Related Position Leg must be executed for accounts with the same beneficial ownership. The Related Position Leg is the underlying physical asset, forward, basket instrument or swap to a Basis Trade or Exchange of Future for Swap transaction.

The Related Position Leg must bear reasonable equivalence in terms of physical and/or economic properties with the Underlying of the relevant Listed Product, including price correlation. Generally acceptable Related Position Legs could include (but are not limited to) the following types of assets:

- Deliverable cash bonds
- Non-deliverable cash bonds
- Forward Rate Agreements (FRA)
- Swaps
- Sale and Repurchase Agreements (Repos)
- Interest rate options

Upon the request of the Exchange, Member Firms must provide a justification as to how the related position is deemed equivalent to the associated Listed Product.

4.6 Accounts with Common Beneficial Ownership

Generally the Exchange would expect the opposing parties to a Basis Trade or Exchange of Future for Swap transaction to possess independently controlled accounts with different beneficial ownership.

However the Exchange recognises that in certain cases a Basis Trade or Exchange of Future for Swap transaction could legitimately occur between accounts with beneficial ownership that is common to both the buyer and the seller. Where this is the case Member Firms must ensure that the parties to the Basis Trade or Exchange of Future for Swap are sufficiently independent from each other and the Exchange may ask for evidence that this is the case.

In assessing whether the accounts of parties to a Basis Trade or Exchange of Future for Swap transaction are independent the Exchange would look for evidence of the following:

(a) both the buyer and the seller have bona fide commercial rationale for executing the transaction;

(b) there is no explicit or implicit form of common control between the buyer and the seller, and therefore absent a lack of common control they are acting independently; and

(c) the price of a Basis Trade or Exchange of Future for Swap transaction is reasonable in light of the commercial circumstances of the buyer and the seller.

4.7 Recordkeeping

Member Firms must maintain or cause to be maintained accurately all relevant records related to a Basis Trade or Exchange of Future for Swap transaction. For brokered transactions, this includes Reporting Brokers maintaining all records relevant to the facilitation and confirmation of the transactions.

The Exchange considers the following non-exhaustive list of records to be relevant:

- Records relating to the placement, negotiation, execution and confirmation of the Basis Trade or Exchange of Future for Swap transaction such as order tickets, broker slips, agreements and confirms, whether in electronic or hard copy;

- Internal records of the Member Firms reflecting the booking of the Basis Trade or Exchange of Future for Swap transaction, including both the Futures leg and Related Position Leg;

- Evidence of a bona fide Related Position Leg, such as an underlying swap or cash instrument transaction, with counterparty information consistent with the Futures leg;

- Payment records and/or proof of title transfer for the settlement of cash instrument transactions; and

- Futures statements reflecting the Basis Trade or Exchange of Future for Swap transactions.

Member Firms should produce such records in a timely manner if requested to do so by the Exchange.

5.0 Guidance on Block Trades

5.1 Eligible Products

Member Firms may transact Block Trades in all Listed Products on CurveGlobal Markets, subject to Member Firms meeting the Participation requirements in section 2.

5.2 Price Requirements

Block Trades must be traded at **fair market value.** Where Block Trades contain multiple Listed Products legs for simultaneous and contingent execution, and where a Member is reporting each of those legs separately, then each leg must be traded at fair market value. In assessing whether this requirement has been met the Exchange will consider the following factors:

1) The quantity executed as a Block Trade;

2) The quantity and prices of Trades, as well as bids and offers, in the relevant Listed Product(s) (or for Tailor-made Contracts, the related Listed Product(s) where relevant);

3) The quantity and prices of trades, as well as bids and offers, in related markets;

4) Any other circumstance the Exchange deems relevant to the deal, including the particular circumstances of the participants or general market conditions.

CurveGlobal Markets will operate price parameter checks on Block Trades. These checks require the price to be either within the best bid and offer ("BBO") in the Order Book or a permitted maximum deviation from the BBO, as further detailed in the CurveGlobal Markets BNT and DP Threshold Parameters document available here. These parameters should be seen as the "outer limit" of the permissible price of a Block Trade.

In cases where there is no BBO in the Order Book at the time the Block Trade is reported, the Exchange will use its discretion to determine whether the Block Trade represents fair market value, and may choose to apply the price parameter checks to the **last** BBO in the Order Book as a guide and have reference to other price information in related markets where relevant.

If a Block Trade is rejected by CurveGlobal Markets as a result of the price falling outside the price parameter controls, parties to the Block Trade may choose to renegotiate the terms of the deal and resubmit it as a new Block Trade.

The Exchange reserves the right to reject a Block Trade (for manually submitted deals) or cancel a trade (for electronically submitted deals) if in the sole view of the Exchange the Block Trade does not represent fair market value or fails to meet the minimum thresholds. Although not required to do so, the Exchange would typically contact the Member Firm(s) involved in the Block Trade before taking this action.

5.3 Block Trade Minimum Thresholds

All Block Trades must meet the minimum size for the relevant product detailed in the CurveGlobal Markets BNT and DP Threshold Parameters document available here, depending on whether the negotiated price lies within the BBO or within the permitted maximum deviation from BBO.

For a Block Trade strategy, price controls apply on per leg basis: in order to qualify for a price outside BBO on a particular leg that leg must meet the minimum size for outside BBO. In addition, each leg must meet the minimum threshold.

In order for a Block Trade to be considered for deferred publication, as further detailed in section 7, the Block Trade must meet the minimum size for the deferred publication of negotiated transactions, as specified in the CurveGlobal Markets BNT and DP Threshold Parameters document available here. For details on the deferred publication of Block Trade strategies, please consult section 7.

Member Firms must not aggregate Orders from separate Customers in order to meet the minimum block thresholds, except in cases where a fund manager is acting on behalf of two or more Customers pursuant to the same trading strategy. However, Member Firms may aggregate counterparty exposure on one side of a Block Trade provided that the quantity for each counterparty when considered in isolation meets the Block Trade minimum threshold. In order for the Block Trade to be eligible for deferred publication the quantity for each counterparty must meet the minimum size for deferred publication.

Partial fills of Customer orders as a Block Trade are permitted provided the Customer has given their consent and the Block Trade meets the minimum threshold requirement.

For the CurveGlobal Markets methodology[1] used to convert notional value thresholds into a corresponding number of lots please see the 'Annex' to this document.

5.4 Recordkeeping

Member Firms are reminded of the requirements of CurveGlobal Markets Rule 1.1.32 to retain a record of each trade entered into by it for at least three years. CurveGlobal Markets reserves the right to request information from Member Firms to assess Member Firms' compliance with CurveGlobal Markets rules, in particular Chapter 5. Member Firms must produce such records in a timely manner at the request of the Exchange.

[1] Methodology required by #19 of ESMA Q&A on MiFID II and MiFIR transparency topics dated 5 December 2019, and updated on 29 May 2020.

6.0 Timing and Trade Reporting Requirements

6.1 Timing and Trade Reporting Requirements

(i) Permitted times for execution

A Bilaterally Negotiated Trade may be agreed at any time subject to the following:

- Basis Trades and Exchange of Future for Swap transactions may not be executed in a delivery / expiry month that has never traded;
- On the Last Trading Day, for Manual Trade Reporting the Bilaterally Negotiated Trade is reported before the last 1 hour of trading on the Last Trading Day of any delivery / expiry month;
- On the Last Trading Day for Electronic Trade Reporting, all Member Firms have reported and confirmed their respective sides before the expiry of the underlying Future or Option.

Failure to comply with the timeframes above will mean the Bilaterally Negotiated Trade will not be accepted.

(ii) Trade Reporting times

Subject to the restrictions detailed under the "Permitted times for execution" section above, once the counterparties to the Bilaterally Negotiated Trade have agreed the terms of the deal, the Bilaterally Negotiated Trade must be reported to the Exchange within the following time periods:

Trade Reporting Requirements			
	Block Trades		Basis Trade or Exchange of Future for Swap transactions
	Outrights	Spreads and Strategies[2]	
All Interest Rate Derivatives	5 minutes	15 minutes	15 minutes

However, the Exchange will only accept the reporting of a Bilaterally Negotiated Trade during the Trade Reporting hours set out in the Contract Specification of the relevant Listed Product, which can be accessed on the CurveGlobal Markets document library through the following link: http://www.lseg.com/derivatives/document-library

Where a Bilaterally Negotiated Trade is agreed outside of the Trade Reporting hours specified in the relevant Contract Specification, the transaction must be reported within the applicable time periods set out in the table above from the next time the Trade Reporting window reopens.

Where a Bilaterally Negotiated Trade has been agreed on a Trading Day "T" and has not been reported to the Exchange within the permissible time period for reporting, a Member Firm may not report the Bilaterally Negotiated Trade past that Trading Day i.e. on T+1 or later.

[2] Block Trades which consist of two or more legs in the same Listed Product that are traded simultaneously and contingently to achieve a weighted average/blended price qualify as a Block Trade strategy.

Where relevant, **the Member Firm(s) that has/have the responsibility to report a Bilaterally Negotiated Trade must have reported and provided any relevant confirmations to the Exchange within the required timeframe**. Late, inaccurate or incomplete reporting may subject the responsible Member Firm(s) to disciplinary action.

(iii) Responsibility for Trade Reporting

For brokered transactions, unless otherwise agreed to by the parties, the responsibility for reporting resides with the Reporting Broker or Member Firm acting as a Broker.

For bilateral transactions:

- where that Member Firm is trading against a non-Member Firm, the Member Firm has the responsibility for reporting; or
- where there are two Member Firms party to the Bilaterally Negotiated Trade, the seller has the responsibility for reporting unless otherwise agreed to by the parties.

(iv) Methods of Trade Reporting

There are two methods for Trade Reporting a Bilaterally Negotiated Trade – Manual Trade Reporting and Electronic Trade Reporting. The Reporting Broker or Member Firm responsible for Trade Reporting should inform all other Member Firms which method of reporting is being used to ensure all reporting and confirmation obligations are met in a timely manner.

For **Manual Trade Reporting,** Member Firms must use the relevant email template found on the CurveGlobal Markets webpage, which can be accessed here. **Before a Member Firm submits a Trade Report, or a Trade Report is submitted on its behalf, a Member Firm must ensure that that the deal terms are in compliance with any relevant risk limit in place with its Clearing Member.** Upon receipt of a manually submitted Bilaterally Negotiated Trade, subject to being satisfied the transaction is in accordance with the Rules, the Exchange will accept the deal.

When completing the Trade Report with the details of the Bilaterally Negotiated Trade it is imperative that:

- The Buy and Sell Member Mnemonics are completed **with details of** CurveGlobal Markets **Members only**. The complete list of CurveGlobal Markets Members can be found **here**.
- The Account Reference cell must be populated with House (H),Client (C) or Matched Principal depending on the nature of the business conducted.
- The time the Bilaterally Negotiated Trade was agreed by all parties is added to the Trade Report; and
- For Third Country Member Firms the MiFID fields are completed.

Failure to do so could mean the Trade Report is rejected by CurveGlobal Markets.

The below MIFID fields are mandatory for Third Country Member Firms on the Trade Report. Member Firms that are not Third Country may also choose to populate the following fields:

- Client ID Code and Client ID Qualifier;
- Investment Decision ID Code and Investment Decision ID Qualifier; and/or
- Execution Decision ID Code and Execution Decision ID Qualifier.

Although these fields are optional if you are not a Third Country Member Firm, if populated these fields will be included in execution messages so completing them may assist Members with their transaction reporting requirements. Details relating to the population of these fields can be found in Appendix F of the CurveGlobal Markets Trading Services Description (available here).

For Bilaterally Negotiated Trades that are entered into SOLA following **Manual Trade Reporting,** Basis Trade or Exchange of Future for Swap transactions will be entered using the Price Type "B"; Block Trades will be entered with Price Type "C".

For **Electronic Trade Reporting**, Member Firms can directly enter Bilaterally Negotiated Trades into the SOLA platform using available functionalities as described in the CurveGlobal Markets Trading Services Description ("TSD") document. Either a Reporting Broker or other Member Firm (as determined per the priority set out in the "Responsibility for Trade Reporting" section above) will enter the transaction details, and all other Member Firms involved in the deal must accept their respective sides of the transaction. **All Member Firms must ensure that their respective sides have been reported and confirmed within the required timeframe.**

For Electronic Trade Reporting a Member Firm may choose to populate the optional fields below in order to assist them with their transaction reporting requirements. However, where they are not populated, a Member Firm must populate them using the text provided in brackets below:

- Client ID Code with (0) and Client ID Qualifier with (none);
- Investment Decision ID Code with (0) and Investment Decision ID Qualifier with (none); and/or
- Execution Decision ID Code with (3) and Execution Decision ID Qualifier with (none).

For **Electronic Trade Reporting** of Basis Trade or Exchange of Future for Swap transactions, Member Firms must use Price Type "B" in SAIL and OrdType "B" in FIX; for Block Trades, Member Firms must use Price Type "C" in SAIL and OrdType "C" in FIX.

6.2 Publication of Post trade information

Once a Bilaterally Negotiated Trade is accepted by the Exchange, a Contract will arise between the CCP and each Clearing Member Firm, subject to and in accordance with the Clearing House Regulations. Details of the Bilaterally Negotiated Trade will be disseminated via the High Speed Vendor Feed immediately, unless the Bilaterally Negotiated Trade qualifies for a deferred publication, as described in Section 7[3]. The time, price, size and instrument code of the Bilaterally Negotiated Trade will be published, whether immediately or on a deferred basis.

A Bilaterally Negotiated Trade will not affect the Exchange's price high/low metrics nor affect the last traded price.

[3] For Basis Trade or Exchange of Future for Swap transactions only the details of the Futures leg will be published.

7.0 Deferred Publication of Trade details

Deferred publication allows for the publication of the trade details of the Futures leg of a Basis Trade Exchange of Future for Swap transaction or the Block Trade to be deferred until the end of the trading day on Trade Day. In order to qualify for a deferred publication the following conditions must be satisfied:

1) The relevant instrument group(s) must be enabled for deferred publication, as specified in the CurveGlobal Markets TSD;

2) At least one Member that is party to the Bilaterally Negotiated Trade must request for the trade details to be deferred at the time of Trade Reporting; and

3) The Bilaterally Negotiated Trade must comply with the requirement specific to the relevant trade type below:

    - For Basis Trade or Exchange of Future for Swap transactions, only the Futures leg must meet the relevant deferral threshold.

    - Single-leg Block Trades must meet the minimum size for the deferred publication of negotiated transactions.

    - For Block Trade strategies each leg must meet the relevant minimum size for deferred publication of negotiated transactions threshold.

The minimum sizes for the deferred publication of trade details are specified in the CurveGlobal Markets BNT and DP Threshold Parameters document available **here**.

Requests for the deferred publication of trade details can be made through the Manual Trade Reporting and Electronic Trade Reporting methods, as described in Section 6.1(iv).

8.0 Annex

8.1 Methodology for the conversion of SSTI and LIS thresholds from notional value into lots

In order to convert LIS and SSTI notional value thresholds into lot, the following methodology is used:

1) a unique LIS threshold in lots (the "**Threshold**") is determined for each group of derivatives (a "**Group**"). A Group includes all derivatives instruments (series) that belong to the same sub-asset class of derivatives and segmentation criteria, as defined by RTS 2. The list of available Groups is provided below.

2) The calculated Threshold is applied to all series in the same Group.

3) Thresholds for all Groups are calculated once per year and are made public within 15 working days after the day when ESMA publishes the annual transparency calculations for derivatives (the "**ESMA Publication Day**"). The conversion is calculated using the average of the closing price of the underlying in the 12 months of the calendar year preceding the ESMA Publication Day.

4) Thresholds are maintained until the application of the results of the next calculations performed in accordance with Article 13(17) of RTS 2. Thresholds may be modified during the year in the case of both pre-determined ordinary and extraordinary revisions of the lot sizes of the underlying derivative contracts communicated by CurveGlobal Markets. The results of any revision will be published by CurveGlobal Markets via Market Notice.

5) For Groups where the notional value is not expressed in Euros, before applying the conversion formulas described in point 6, ESMA thresholds are converted to the notional value currency at the ECB official exchange rate on the ESMA Publication Day.

6) Thresholds are determined by applying the formulas specified in question #19 of ESMA Q&A on MiFID II and MiFIR transparency topics dated 5 December 2019 and reported at the end of this Annex, with the specifications described below:

    - For derivatives belonging to the Bond futures/forwards sub-asset class, the closing price is defined as the daily settlement price of the future contract itself. The average price in the previous 12 months is calculated as the arithmetical average of the daily settlement prices for all futures belonging the same Group across the whole period. The obtained average price is then scaled by the default contract size of the Group, i.e. the value, in cents, of one basis point.

    - For derivatives belonging to the IR futures and FRA sub-asset class, the closing price is the underlying benchmark fixing published by the benchmark administrator. The 12-month average of the benchmark fixings is then scaled by the default contract size of the Group (i.e., the value, in cents, of one basis point) and further normalised assuming a 12-month term of the underlying interest rate.

The minimum quantity for:

- orders to execute a negotiated transaction, including large-in-scale legs of package transactions;

- deferred publication of an executed trade;

may be defined by CurveGlobal Markets at a value that is equal to or higher than the Thresholds determined according to this conversion methodology.

8.2 Groups of derivatives, according to classifications in Annex III of RTS 2

Sub-asset class of derivatives	*Segmentation criterion #1*	*Segmentation criterion #2*	*Group*
	Issuer of the underlying	*Term of the underlying deliverable bond*	
Bond futures/forwards	German Finance Agency	Short term	CurveGlobal® Schatz Gilt Futures
Bond futures/forwards	German Finance Agency	Medium term	CurveGlobal® Bobl Gilt Futures
Bond futures/forwards	German Finance Agency	Long term	CurveGlobal® Bund Futures
Bond futures/forwards	UK Debt Management Office	Long Term	CurveGlobal® Long Gilt Futures
	Underlying interest rate	*Term of the underlying interest rate*	
IR futures and FRA	Euribor	3 months	CurveGlobal® Three Month Euribor Futures
IR futures and FRA	ICE Libor	3 months	CurveGlobal® Three Month Sterling Futures
IR futures and FRA	SONIA	3 months	CurveGlobal® Three Month SONIA Futures
IR futures and FRA	SONIA	1 month	CurveGlobal® One Month SONIA Futures

8.3 Formula for the conversion of the LIS thresholds into lots

From ESMA Q&A on transparency topics dated 15.12.2019, section “Non equity transparency”, question 19:

Contract type	*Formula for the conversion of the LIS/SSTI thresholds into lots*
Futures/forwards	$$\text{Thresholds in lots} = \frac{\text{Notional value of the threshold}}{\text{Lot size} * \text{Arithmetical average closing price of the underlying}}$$ where the notional value is the notional value in the trading currency of the derivative contract, the lot size is the contract size (price multiplier in the case of index futures/forwards) determined by the trading venue for that derivative contract and the arithmetical average closing price of the underlying is determined by the value resulting from the average of the available closing prices of the underlying (or, when not available, the reference value determined by the relevant market of the underlying) during the 12-months of the previous year, or in the case of a newly admitted to trading underlying instrument or a corporate actions, the available actual or theoretical underlying price(s) taking account the corporate

	action adjustment. In all cases, the threshold in lots resulting from the division shall be rounded to the minimum tradable number of lots for orders. The value can be rounded up or down, but the type of rounding shall be determined by the end-value that is closer to the prerounding value.

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